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Beating the Benchmark

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If you found a small group of investment managers who have consistently outperformed big money managers over three-, five- and 10-year marks, you'd probably want to hire them right away.

You can't.

They don't graduate until May, and all of them already have jobs at a time when the U.S. Labor Department says the financial sector lost 400,000 jobs in the last two years.

University of Dayton finance students who manage Flyer Investments, a multi-million dollar investment fund for the University's endowment are doing "much, much better" than the endowment's professional money managers, said Richard Davis, a University trustee who serves on the board's investment committee.

"Quarter after quarter, year after year — and now for 10 straight years — their performance is just outstanding," he said about the students of the Richard P. and Susan P. Davis Center for Portfolio Management.

Over the past 10 years, the student fund outperformed its benchmark index, Standard and Poor's 500, by 2.13 percent per year. The students' return was a positive .74 percent, while the S&P 500 was down 1.39 percent, Davis said.

The student-managed portfolio also outperformed the benchmark S&P 500 over the last three- and five-year periods. For the three-year mark, the students outperformed the benchmark by 1.87 percent per year; the student fund was down by 6.47 percent while the S&P index was down 8.34 percent. For the five-year mark, the student fund was a positive .79 percent while the S&P index was down 2.18 percent, which beat the benchmark by 2.97 percent per year.

Even with the severe declines in the stock market during the last year, the student fund continued its outstanding performance, Davis said. For the one-year mark the student fund achieved very strong performance, beating the S&P 500 by 4.4 percent.

"Each semester a different group of 15 students manage what's now a \$9 million fund. Over the years, I've seen the students at work and every semester, they have a strong desire to continue with the top quality performance of past years. They really feel concern and that desire to do well," Davis said. "Although there are different students each year, this long-term, consistent performance is no accident. It only happens when smart money managers work very, very hard in difficult markets."

Davis and his wife, Susan, gave the University \$1 million to endow the center so students could gain real-world experience and skills using the same analytical software and database subscription services employed by financial institutions globally.

"The theory in books is great, but they need real-life experience to land jobs," he said. "They not only learn how to use professional tools, they become skilled in collaboration and prudent stock selection and hone their analytic abilities."

The strategy has paid off for the 10 graduating seniors this May who will walk straight into financial sector jobs.

"The Davis Center experience definitely put me leaps and bounds ahead of my competition," said Joseph Recker, student manager of the center. "Finance is definitely tough this year."

That experience was key to the two internships Recker landed his junior and senior years. Those internships resulted in a job offer he received last fall from JP Morgan Asset Management in Chicago.

Britney Lewis, a Davis Center team leader, who will be working for BlackRock Asset Management in Princeton, N.J., said her experience on a student-led team was crucial to her success.

"You become part of a team and then develop the ability to become a team leader and a manager. That's been the biggest part of what I learned, how to manage people, how to work in a group and how to be effective," she said.

David Sauer, associate finance professor and director of the Davis Center, said that his student investors have immersed

themselves in chaotic financial times that "will be talked about for years and years and years."

"Students have learned about diversification, risk management and doing things thoughtfully," Sauer said. "During this time of great uncertainty, they've continued to focus on a more deliberate approach based on analysis as opposed to reacting.

"From an educational perspective, it's been a phenomenal experience," he said.

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